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# **Philanthropic crowdfunding as a growing industry?**

## **Crowdfunding characteristics and recent developments worldwide**

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### **1.0 Introduction**

Caravans floating through the channels of Amsterdam. People passing by, wondering if this is the future? Sam is an artist who wants to make people more aware of our current environmental problem: where can we live if the sea levels keep rising? He wants to build a floating village made of caravans, to create awareness by showing ways to deal with the increasing sea levels, such as an artificial island made from caravans. Unfortunately, since the last financial crisis, artists like Sam have had a hard time realizing their dreams. To ensure that the caravans float instead of sink, Sam needs to assemble donations to fund his project. Therefore, Sam decided to start a crowdfunding project, called 'Floating Village'<sup>1</sup>.

Crowdfunding is an online funding tool, which can be used by any individual with a unique idea, such as artists like Sam. By starting a crowdfunding project, Sam is now both an artist and a crowdfunding creator. In crowdfunding, the creator of a project provides potential donors with a detailed description of the project the creator wants to achieve, and the donation amount needed to realize this. Sam uploads this information on his personal project page of the crowdfunding platform. Any individual can visit the page and donate to support Sam's project. Crowdfunding includes three key players: the creator, the platform and the donor (see Figure 1).

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<sup>1</sup> The project described in this introduction is based on an actual project hosted on the Dutch crowdfunding platform Voordekunst: <https://www.voordekunst.nl/projecten/8994-floating-village-1>.

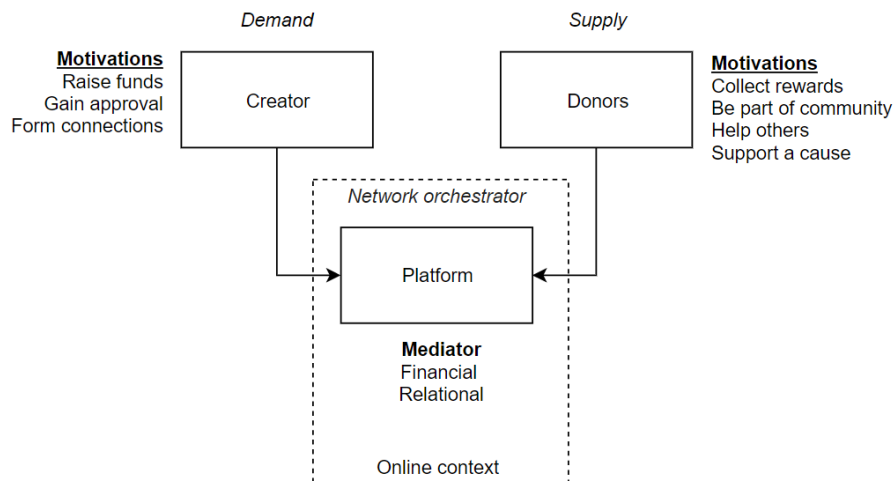


Figure 1. Simplified model of the three key crowdfunding players

A crowdfunding platform provides an internet-mediated place for creators and donors to connect. Therefore, it is both a financial and relation mediator (i.e. social media platform). Donors can connect both with other donors and the creator.

## 2.0 Key characteristics

Crowdfunding builds on a large group of (private) individuals each donating a small amount online. In exchange for their donation, donors can receive a reward (i.e. reward-based crowdfunding), which ranges from acknowledgements on the developed product to a discount before market launch (e.g. free tickets for a show). A donor can also opt to donate without receiving a reward, i.e. donation-based crowdfunding. Reward- and donation-based crowdfunding are also referred to as philanthropic crowdfunding (van Teunenbroek, 2016): the donor's input (i.e. monetary donation) is larger than the output (e.g. rewards). Another type of crowdfunding is equity-based crowdfunding, where backers provide funding for a company and in return, they get a small ownership of the business. The fourth type is lending/loan-based crowdfunding (e.g. peer-to-peer lending), where backers lend capital to companies. Equity- and lending-based crowdfunding focus on crowdfunding projects with a financial incentive: backers expect an economic return; thus, the backer's input is

smaller than the expected output. The different types of crowdfunding are illustrated in Figure 2. Unless noted otherwise, we will further focus on philanthropic crowdfunding.

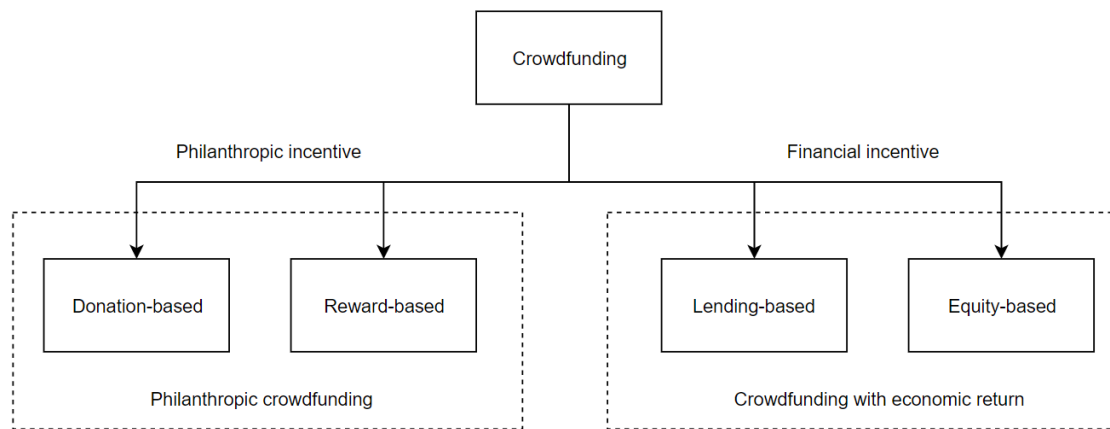


Figure 2. Simplified overview of the four crowdfunding types.

Crowdfunding is an updated version of an old model. Project-based funding can be traced back to the 17<sup>th</sup> century, but the most famous example is the funding of the Statue of Liberty in New York in the late 19<sup>th</sup> century. The project was funded by thousands of private individuals (about 160,000) with many donating amounts around \$1 (BBC, 2013). The group of donors was diverse: ranging from young children to street cleaners, politicians and businessmen. If ran today, the project would have counted as a crowdfunding project, apart from the placement for campaigning: a newspaper instead of a crowdfunding platform. However, the fact that the donors were recruited in one single collection point, the media coverage, the diverse crowd and the small donations all count as key characteristics of crowdfunding. Crowdfunding in its current form is a young form of fundraising, since most of the development happened between 2006 and 2009. Next to the small donations, the combination of three additional elements make a crowdfunding project (see Figure 3).

*Online nature.* Crowdfunding platforms function as an online marketplace for private or professionals who aim to assemble funding for a specific project, therefore mediating between ideas and donations. Creators share their projects using social media platforms such as Facebook and Twitter.

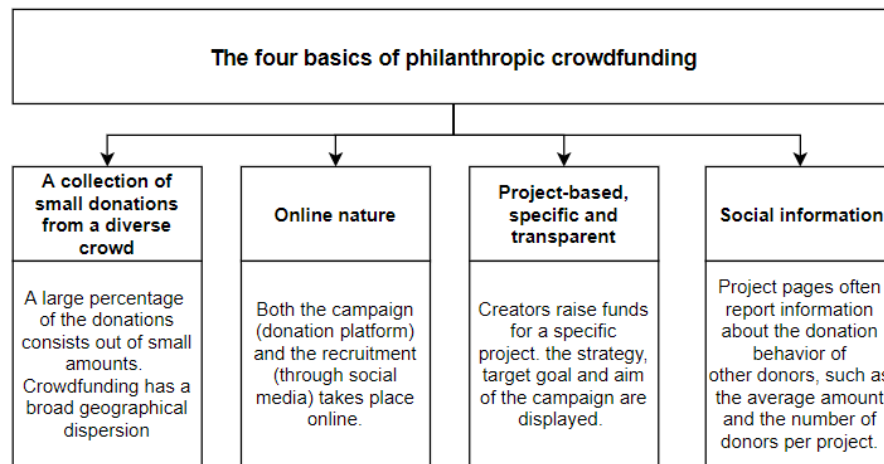


Figure 3. Schematic summary of the four basics of philanthropic crowdfunding.

*Project-based, specific and transparent.* The creator provides a promo video, detailed description of the projects aims and the donation amount needed to realize this. Instead of asking for a donation for a general cause (e.g. international aid), with crowdfunding people are asked to donate to specific projects (e.g. digging a water well in a village in Western Kenya). Some projects aim to collect money for one specific person (e.g. cover the medial expanses of someone's operation). One can question whether the last example still counts as philanthropic, since it does not support a general good but solely has a personal goal. Most platforms include a time limit: the projects run for a few days, which are indicated in advance. The project-based nature of crowdfunding results in a transparent strategy, which provides potential donors with information and control: the donors determine which project is funded rather than the charity.

*Social information.* Crowdfunding projects often report statistics about earlier donors, like the number of donors or the average donation amount of earlier donors. The effect of reporting on the donation behavior of other donors is called the social information effect (van Teunenbroek, Bekkers & Beersma, 2019). With crowdfunding, reporting the average donation amount of earlier donors results in an increase in the average donation amount of later donors (Kawamura et al., 2018; van Teunenbroek, 2016; van Teunenbroek & Bekkers, 2019).

### 3.0 Recent development in crowdfunding worldwide

It is often reported that in recent years, crowdfunding markets experienced a severe growth rate; however, it is important to note that this was mostly among non-philanthropic platforms (Chervyakov & Rocholl, 2019). Only 15% (about \$5.5 billion based on available statistics) of the total amount raised through crowdfunding stems from philanthropic crowdfunding (The Startups Team, 2018). A vast amount (99%) of the global activity stems from platforms from the United States, Asia, and Europe (Chervyakov & Rocholl, 2019).

#### 3.1 Crowdfunding has a broad geographical dispersion

The online nature of crowdfunding supports a broad geographical dispersion: for international platforms, the average distance between creators and donors is about 5,000 kilometers (Agrawal, Catalini & Goldfarb, 2011). Meaning that creators and donors are often not from the same country. In this, social media plays an important role since media platforms make it easier for creators to connect with the unknown crowd. It is reported that worldwide, the most popular crowdfunding category covers projects related to healthcare: 27% of the projects worldwide were intended to cover medical expenses (Nonprofit Tech for Good, 2018).

There are two major platforms on the market for philanthropic crowdfunding that receive donations from all over the world:

- *Kickstarter*, originated in 2009 in the US, with several very large campaigns over the last few years. Kickstarter offers a vast amount of creative oriented projects. In 10 years, Kickstarter has raised \$4.6 billion among 17 million donors.
- *Indiegogo*, originated in 2008 in the US, approves campaigns for almost anything, except investments. In 10 years, Indiegogo has raised \$1.6 billion among 800 thousand donors (Wiggers, 2019).

### 3.2 Recent developments and unique findings per country

This section reports data from various sources to explain the current state of crowdfunding around the world. Please note that some of the crowdfunding statistics are easier to find than others, thus some of the findings are based on news reports, instead of official company reports or scientific articles.

The US, in comparison with Asia and Europe, has the largest percentage of philanthropic crowdfunding projects: about 18% of the country's total amount raised through crowdfunding comes from philanthropic crowdfunding (Chervyakov & Rocholl, 2019). One of the world's largest platforms, Kickstarter, is one of the most popular but not per se the most successful platform worldwide. Between 2014 and 2018 about two-third of the projects failed to assemble the target amount (The Crowdfunding Center, 2018).

The American crowdfunding field is notable by their love to fund videogames. In 2018, Kickstarter reported a record-breaking year for funding games. In 2018, Kickstarter experienced a record-breaking year for funding games, reporting an 18% increase compared to the earlier year (Kickstarter, 2019). More than 3 million donors showed their interest in funding games by donating to one or more of the projects. Donors indicated that they were motivated by supporting the developers and to pre-order the game (Steigenberger, 2017). Some crowdfunding projects provide donors with the opportunity to play the game before it is launched online (beta-version). Some might say that this type of projects should count as online sales rather than philanthropy.

China focusses mostly on reward-based crowdfunding (Huang, Chiu, Mo & Marjerison, 2018). The Chinese sector runs their own crowdfunding platforms with great success (Chen, 2016), like JD Crowdfunding, Taobao Crowdfunding and Tencent Lejuan. Most of the reward-based platforms are closely branded with e-commerce and large Chinese technology firms where products and services are delivered in return for funding contributions (i.e. reward) (Huang et al., 2018). Most of the donation-based projects are put forward by non-profit organizations or non-governmental

organizations (NGOs). For NGOs, crowdfunding functions as a primary funding source, since NGOs are not allowed to raise money from the public without an affiliation with government projects or special permission from the government (Zheng & Liu, 2017).

India mostly uses crowdfunding to fund medical projects (Kedia, 2019). The most popular platform, ImpactGuru, is specialized in healthcare related projects. The platform reports that since the start in 2015 they mobilized 20 million euros to help Indians in need. They receive donations from all over the world. In India people must pay for most of their healthcare expenses, thus alternative finances like crowdfunding offer a way out. The Indian crowdfunding market has witnessed a strong increase now that more people have access to the internet and easier online payments: with 12,000 successful projects in 2018 alone (Kedia, 2019).

In Europe, compared to the US and Asia, philanthropic crowdfunding makes up for the smallest percentage (<10%) of the total crowdfunding market (Chervyakov & Rocholl, 2019). Philanthropic crowdfunding does not seem to have found their crowd just yet, with negative developments in 2016 and 2017. The nominal growth has fallen back to the 2013 level (Chervyakov & Rocholl, 2019). Today, the largest crowdfunding markets in Europe are the UK, France, Germany, and the Netherlands. These four countries count as the most mature European crowdfunding markets.

The UK fulfills a big role in the European crowdfunding landscape in terms of market volume per capita, preferring donation- over reward-based funding. The UK witnessed a strong increase in the number of platforms between 2012 and 2014; however, since 2015 the popularity is decreasing (Bone & Baeck, 2017). Despite the decrease in the number of platforms, the donation amount raised continued to grow. This suggests that several platforms have become more successful at attracting donors, at the cost of other platforms. The UK is characterized by an expanding number of niche sites hosting specific projects, such as CrowdJustic (public interest law cases) and DigVentures (archaeology projects).



A popular and one of the older (founded in 2001) platforms is JustGiving, based in the UK and supporting a fast number of categories. The platform hosts more than just crowdfunding projects, like an ambassador model where private individuals raise funds for charities. Since 2019, the platform removed the platform fees from all campaigns, while most platforms expect a certain platform fee from creators for using the platform. In 2019 JustGiving collected over \$4.5 billion for public goods since 2001 (Justgiving, 2019), but it is unclear how much of this originated from crowdfunding projects alone.

France can call itself the second largest dominant force in European crowdfunding. Compared to other European countries, French platforms lead in the amount raised for reward-based projects (126 million euros) (Chervyakov & Rocholl, 2019). French crowdfunding market decreased with 2% in the past year, collecting a total of 81.5 million euros (FPF & KPMG, 2019). The French show a strong preference for reward-based crowdfunding over donation-based crowdfunding: 84% of the total philanthropic amount raised through crowdfunding comes from reward-based crowdfunding projects. France is home to the two largest European reward-based platforms: Ulule (raising raising €109 million before 2019) and KissKissBankBank (raising €83 million before 2019) (Toris, 2018), both supporting a fast number of categories. According to Toris (2018) the French like crowdfunding, because it gives them control over their donation, since they choose where their money goes.

Germany is ranked as the third highest country in Europe. The first German reward-based crowdfunding platform started in 2010. Germany accounts for the largest donation-based crowdfunding percentage in the whole of Europe, but their focus is on financial crowdfunding (i.e. equity- or lending-based). German crowdfunding platforms experience a strong competition from suffer from US-based platforms. For instance, one of the most popular platforms among the Germans is the US based platform Patreon (Gründung, 2019). Patreon not only functions as a crowdfunding platform but also as a social media platform. It applies a unique strategy where donors pay monthly amounts to creators to support them and gain access to their content (i.e.

subscription model). The platform supports projects such as podcasts, video creators, gaming creators and writers. The platform was founded in 2013 and within 6 years the platform assembled about \$1 billion, donated by 3 million donors to over 100 thousand creators (Patreon, 2019).

There are several successful German crowdfunding platforms which mostly offer projects with a national focus. For instance, Startnext, which achieved a turnover of 1.1 million euros in 2017. In the first four months of 2018, the platform had already collected 900 thousand euros, and by 2019 they crowdfunded over 60 million euros (Startnext, 2019). The platform offers a broad range of projects, ranging from research to sport, food and theater. Next to Startnext, the Germans prefer Steady, which is a young and upcoming platform founded in 2017 using a similar strategy as Patreon: subscription model. The platform focusses on funding podcasts, videos, arts and nonprofits.

The Netherlands is the fourth highest-ranking country in Europe with regards to online alternative finances by market value (ECN, 2018). In 2018, crowdfunding was good for raising a total of 32 million euros (CrowdfundingCijfers, 2019). Dutch platforms are among one of the few European platforms witnessing an increasing popularity. The Netherlands counts a fast-growing number of platforms, covering a wide variety of categories (from funding for the arts to science and international projects). Compared to the year before, the total amount raised through crowdfunding grew with about 16% in 2018 (CrowdfundingCijfers, 2019). While this seems promising, it is still a very small percentage (less than 1%) of the total Dutch philanthropic value of about 5.7 milliard euros (Bekkers, Schuyt & Gouwenberg, 2017).

The Dutch prefer to fund arts-oriented projects; the largest Dutch crowdfunding platform is the arts-oriented platform Voordekunst. For the Dutch cultural sector, alternative financial sources such as crowdfunding became essential to support the sector. In 2010, the government of the Netherlands announced a substantial cut in government funding to the cultural sector. Because the sector depended heavily on government subsidies (Raad voor Cultuur, 2019), the subsidy cuts decreased the production rate of the sector.

Africa. Crowdfunding in Africa is still a small niche and not much is known about the crowdfunding statistics. However, newly launched crowdfunding services enable individuals to launch crowdfunding projects to raise money for personal expenses. We do know that those who give to crowdfunding projects prefer to give to projects aiming to cover medical expenses, education costs, or volunteer expenses (Nonprofit Tech for Good, 2018).

#### **4.0 Philanthropic crowdfunding deserves more (academic) attention**

As a final note, few empirical studies have looked specifically at philanthropic crowdfunding projects (Giudici, Guerini & Rossi-Lamastra, 2018; Zhou & Ye, 2018). The disregard from scientists is unfortunate since there is a need to understand stimulants for donating to crowdfunding projects (Zvilichovsky, Danziger, & Steinhart, 2018), since many crowdfunding projects fail to assemble enough funding and the European crowdfunding is still small and even the larger platforms witnessed a downward trend in the total amount raised (Chervyakov & Rocholl, 2019). Insights regarding crowdfunding stimulants can increase the effectiveness of crowdfunding campaigns. For instance, can crowdfunding support the philanthropic sector, by attracting the new generation of donors?

The international nature of crowdfunding makes it harder to make a cross-country comparison. For instance, while calculating the total amount raised per country should we include only donations from Austrian donors to Austrian crowdfunding platforms? Or should we also include international donations to the Austrian platform, and what about donations from Austrian donors to for instance American platforms?

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